SCRUTINY COMMISSION – 9 MARCH 2022

2021/22 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. To provide members with an update on the 2021/22 revenue budget and capital programme monitoring position as at the end of period 10 (the end of January).

Policy Framework and Previous Decisions

2. The 2021/22 revenue budget and the 2021/22 to 2024/25 capital programme were approved by the County Council at its budget meeting on 17th February 2021 as part of the Medium-Term Financial Strategy.

3. The four-year capital programme was reviewed in July 2021 and an updated programme approved by the Cabinet 17th September 2021.

Background

4. The period 10 revenue budget monitoring exercise shows a net projected underspend of £3.5m.

5. The period 10 capital programme monitoring exercise shows a projected net slippage of £22.2m compared with the updated 2021/22 budget.

6. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure to the end of January 2022.

2021/22 REVENUE BUDGET MONITORING – PERIOD 10

7. The period 10 revenue budget monitoring exercise shows a net projected underspend of £3.5m.

8. A summary of the position is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2021 TO JANUARY 2022

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-2,800	-2,800	
Schools Budget – High Needs	0	10,920	10,920	
Net Total	0	8,120	8,120	
Children & Family Services (Other)	89,353	87,173	-2,180	-2.4
Adults & Communities	156,546	159,376	2,830	1.8
Public Health	-1,323	-1,323	0	0.0
Environment & Transport	83,793	80,453	-3,340	-4.0
Chief Executives	12,458	12,598	140	1.1
Corporate Resources	34,622	35,602	980	2.8
Capital Financing	21,500	22,550	1,050	4.9
Other Areas	12,612	13,412	800	6.3
Central grants/other income	-43,508	-44,958	-1,450	3.3
Covid-19 budget	28,300	28,300	0	0.0
Contribution to budget equalisation earmarked fund	4,000	9,300	5,300	132.5
Contribution to General Fund	1,000	1,000	0	0.0
Total	**399,353**	**403,483**	**4,130**	**1.0**
Funding	**-399,353**	**-406,983**	**-7,630**	**1.9**
Net Total	**0**	**-3,500**	**-3,500**	

9. The key projected variances that have been identified are set out below. Further details of major variances are provided in Appendix B.

Children and Family Services – Schools Budget

10. The Schools budget is forecast to overspend the grant received by a net £8.1m at the end of 2021/22, mainly relating to the High Needs block (£10.9m) offset by an underspend on the other Schools block from schools growth (£2.3m) and Early Years funding (£0.5m).

11. Nationally, concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, continues. The position in Leicestershire reflects the national picture. The MTFS included £5.7m as the estimated in year overspend on the High Needs Block of Dedicated Schools Grant (DSG), The current forecast shows that this has increased to £10.9m, an increase of £5.2m. The increase largely relates to an increased number of placements including Independent School and Post-16 places at an additional cost of £2.0m and non-achievement of planned savings of £1.9m.

12. By the end of 2021/22 the estimated accumulated High Needs deficit is forecast to be £28m. A refresh of the High Needs Development Plan is underway and the Department is investigating a number of actions that could reduce demand to slow the increase in deficit with the ultimate aim of reducing it. Without new interventions the high needs deficit is forecast to continue to increase over the MTFS period and is not financially sustainable. This creates a significant and unresolved financial risk to the Council.

13. In respect of the underspend on the Schools block of £2.3m, this is funding which has been earmarked to help meet the revenue costs associated with new schools and also for meeting the costs of some funding protections for schools with falling rolls as a result of age range change in other schools. The underspend will be transferred to the DSG earmarked fund to fund pupil growth in future years.

14. The underspend position on the Early Years block (£0.5m) is based on the most recent data from the Department for Education. The County Council is expecting a claw back of DSG in this respect, but this should not happen until 2022/23. The projected balance will be held in the DSG reserve and used to offset the clawback in the next financial year.

Children and Family Services – Local Authority Budget (Other)

15. The Local Authority budget is forecast to underspend by a net £2.2m (2.4%), mainly relating to a projected underspend on the Children's Social Care Placement budget (£2.8m), based on current demand and activity, offset by an overspend due to pressures within the social care workforce (£0.6m).

16. Looked after Children (LAC) in Care numbers increased by 8% last financial year to 705 as at 1st April 2021. The budget for 2021/22 had assumed a further 8% increase in LAC numbers. However, LAC numbers for Leicestershire are expected to remain stable. One of the key drivers behind this current positive position is the active work and outcomes being achieved through the Defining Children and Family Services Programme which, as a result, have allowed the department to over-achieve its MTFS savings targets for 2021/22. Such outcomes include reducing a number of LAC starts per year and more specifically reducing the number of residential starts where it was seen the current level of need of children in residential provision could be managed in alternative provision types and sustained through SMARTER planning. The subsequent impact has seen current placement numbers across various provision types at a lower level than budgeted for, both within external fostering and residential provision types.

17. Further work is required over the coming months to establish how sustainable current patterns and trends within Leicestershire's LAC cohort are, and its subsequent financial impact both in year and in future years. Current referrals into both Early Help and First Response service areas have increased sharply, a scenario which was largely expected post Covid-19. It is, however, uncertain at this stage how this demand will impact Leicestershire's LAC numbers but this will be kept under ongoing review.

18. The Defining Children and Family Services for the Future programme has a number of workstreams to reduce the requirement for residential placements; reduce durations and

increase internal fostering capacity. As per the projected underspend across social care placements, early signs show this is starting to make a positive impact. The Social Care Investment programme working in partnership with Barnardo's will also have an impact through the creation of additional capacity for under 16's, over 16's and parent and children places, which should be in place during 2022/23. With increasing demands projected and a market shortage, further investments are planned subject to the individual business cases and availability of suitable property and staff.

19. Social care fieldwork teams continue to remain under pressure with forecast spend increasing to £0.6m above budget for the current year. Recruitment and retention of qualified social work staff continues to be both a regional and national issue due to a general shortage of social workers. Research shows that, on average, qualified social workers do not remain in front line child protection work for more than 8 years and new applicants for training have reduced this year by 6%. There is a growing pull of staff moving to agency work for significantly inflated rates of pay resulting in pay competition across neighbouring authorities.

20. Recruitment of newly qualified social work staff through assessment days has recently been positive and work continues to establish Leicestershire as a chosen employer both in terms of training and support as well as providing competitive pay through the use of market premiums. Workloads are being balanced within the regions and additional staff have been accounted for as growth in the 2022/23. All of these initiatives are intended to have a positive impact to recruitment and retention, however the overall climate remains challenging.

<u>Adults and Communities</u>

21. A net overspend of £2.8m (1.8%) is forecast for the revenue budget for 2021/22.

22. There is continuing significant financial impact due to Covid-19 on adult social care which includes additional cost for commissioned services and loss of service user income. The overall number of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments and Community Life Choices from January 2020 through to Aug 2021 have significantly increased. Typical growth in a year would be approximately 1.5% per annum, however the current number of service users supported shows an increase of 3.8%. There are early indications that overall numbers are starting to decrease. Over the same time period the average cost per service user has also increased, however these seem to be now stabilising.

23. The main areas with variances are:

- Homecare overspend of £8.9m. The forecast reflects that both average package costs and client numbers are significantly higher than budgeted. At the time of preparing the budget, the hospital discharge to assess scheme was expected to end on 31 March 2021. The scheme is now due to end on 31 March 2022, although arrangements beyond this date are uncertain. Some of these costs are offset by hospital discharge income in the region of £1.5m.

The discharge to assess scheme, along with placing less clients into residential care services during the early stages of the pandemic, has been the main factor behind the increase in the numbers of people receiving home care and the average number of hours commissioned per client since March 2020.The discharge to assess scheme for Covid-19 has meant a focus on lowering patient numbers in hospital, which has reduced the involvement of social care prior to discharge. Further work continues alongside Health in reviewing these practices As at the end of December 2021 there were on average 2,250 home care clients with an average package of £257 per week.

- Residential Care overspend of £8.7m. Additional average cost of care packages including transitions from Children's services (£0.9m) and Covid-19/price costs (£7.8m). Over the last 12 months there has been a significant increase in the number of placements requiring a Supplementary Needs Allowance, short term bed placements and price increases in addition to basic fee rates which has increased the average cost of care. It is likely that these costs will be an ongoing issue and work is being undertaken to understand the basis for these which could include reduced occupancy. These are offset by NHS discharge income of £5.0m, reported separately below.

- Residential Care Income reduction £1.1m. As a result of Covid-19 the chargeable number of residential service users has declined. In addition to this there is an ongoing trend of lower residential service users from the Target Operating Model (TOM) project is moving them into Homecare.

- Supported Living (£5.7m) - high cost complex packages relating to a small number of Transforming Care service users being discharged from hospital settings in the community are expected to cost £3.5m. Along with increased hours being commissioned over the Covid-19 period for the remaining service users £2.2m. There is additional health funding in the region of £2.6m to support these costs, reported separately below.

- Community Income additional £4.9m - As a result of the shift of service users into Non-Residential Services following Covid-19, the volume of chargeable service users has increased compared to previous years. In addition, the review of NHS Covid-19 funded service users has increased the number of chargeable service users on the charging run. The income surplus is forecast to be £1.6m at this stage. Health income is also forecast to overachieve by £3.3m overall.

- Additional one of grant of £5m is to be received from the NHS to help support the additional Covid costs and overall income from NHS Discharge Scheme £7.8m.

24. An action plan is in place which has been undertaking:

- Reviews of all service users' packages that have commenced or changed since April 2020 commencing with Homecare which has reduced the overspend by around £3m;
- Working with NHS partners to help improve the discharge pathway including reviewing funding arrangements;
- Ensure financial and funding assessments are undertaken which has reduced the potential loss of income by around £2m;
- Reviewing internal processes.

25. However, the ongoing impact of Covid-19 on demand led commissioned services is being validated and reviews of high cost packages will be undertaken. As the approach to Covid-19 management changes nationally, the impact of these changes is being monitored and continues to make accurate forecasting of demand for commissioned services very challenging.

26. These costs are offset by a £2.9m underspend from staffing, overhead and other budgets. There is also an additional Better Care Fund contribution agreed for the year of £1m.

27. The following government grants relating to Covid-19 have been allocated in 2021/22;

- Infection Control and Rapid Test Fund (£10.6m) - provides support to residential, homecare and other providers that meet the strict grant conditions.
- Workforce Recruitment and Retention Fund (£4.7m) providing support to residential, homecare and other providers that meet the strict grant conditions.
- Omicron Support Fund (£0.6m) - additional funds to support providers during outbreak.

<u>Public Health</u>

28. The department is forecasting to be on budget. Within this position is a net underspend of £1m which will be transferred to the Public Health earmarked reserve to offset uncertainties on future grants.

<u>Environment and Transport</u>

29. A net underspend of £3.3m (4.0%) is forecast.

30. There are underspends on Transport budgets specifically SEN transport (£1.0m) and Mainstream School Transport (£0.3m) due to reduced service demand and contract suspensions as a result of Covid-19 and savings arising from service reviews. In addition, underspends have arisen from the decision to make Concessionary travel reimbursement at actual service levels as per Department for Transport guidance (£0.6m). The commissioning of fewer routes has also led to a net underspend on Fleet Transport

(£0.4m).

31. Across Highways an underspend of £1.3m is anticipated, with HS2 underspending due to Central Government delays (£0.2m) and increases in developer contributions from S38 and S184 infrastructure funding (£0.6m). Further underspends have arisen as a result of increased operations on the network generating income from permitting and fines (£0.6m) and increased income from recharges to the capital programme as a result of the £2m contribution to roads maintenance programme, see below. This is offset by increased reactive and environmental maintenance works to prevent network deterioration (£0.7m).

32. There is a forecast net underspend of £1.9m on Waste budgets. This relates mainly to continuing market price rises generating increased income for recycling, scrap metal and dry recyclable materials (£1.6m). Additional income from trade waste is also projected (£0.2m) together with lower composting tonnages (£0.2m). These underspends are partially offset by additional waste tonnages going to landfill (net £0.4m). The balance relates to vacancies across the service.

33. Due to the improving overall net revenue position for the County Council for the current financial year, £2m of the department's underspend has been redirected toward roads maintenance funding.

Chief Executive's

34. The Department is forecasting a net overspend of £0.1m (1.1%) which is mainly related to additional costs of the Coroners Service (£0.4m) and work supporting Covid recovery in the Communities Team. These costs are partly offset by staffing vacancies across the department of £0.2m and savings on the LGA subscription of £50,000.

Corporate Resources

35. Overall the Department is forecasting a net overspend of £1.0m (2.8%).

36. There is a £2.3m forecast overspend on Commercial Services primarily related to the continuation of difficult trading conditions and losses of income due to continuing Covid-19 restrictions. Key examples are the continued delays to opening Beaumanor Hall (£0.5m), lower volumes in the School Food Service and reduced scope for development activity. Mitigating action has been taken in the form of furloughing staff and accessing the Government's sales, fees and charges grant funding scheme but both are available to a much lesser extent this year.

37. There is a forecast underspend of £0.7m on Information and Technology, mainly relating to not fully utilising all of the funds allocated for Microsoft Teams licensing and the Contact Centre, and also from vacant posts and reduced printing expenditure.

Central Items

38. Capital Financing - £1.1m increased contribution to the capital programme. This relates to the use of additional proceeds from the 2019/20 (75%) Business Rates Pilot becoming available in 2021/22 (see below). The additional funds will be used to support the capital programme and reduce the overall funding required.

39. Central Expenditure/ Grants - £1.7m underspend. Mainly relating to additional interest income forecast from the financial returns of the £20m the Council invested in Private Debt, through the Corporate Asset Investment Fund (CAIF) programme. These investments have started to be repaid resulting in the investment and interest returns having been received. In addition, recent increases in the Bank of England interest rate has resulted in higher investment returns on balances invested than previously forecast.

40. Contribution to the budget equalisation earmarked reserve - £5.3m overspend. The forecast contribution has been increased by £5.3m to match the forecast increase in the DSG High Needs deficit mentioned earlier in the report. This is needed due to the cashflow impact of the additional expenditure. The overspend continues to be accounted for against the grant with the expectation that it will ultimately be repaid.

41. The inflation contingency is currently projected to be overspent by £1m. The main reason for this is that the latest offer from the Local Government Employers for the 2021/22 pay award would exceed the original MTFS assumption.

Business Rates

42. Additional Business Rates income of £2.6m is forecast in 2021/22, based on the latest information from NNDR1 forms and forecast section 31 grants. Of this £1.1m relates to the balance arising from the 2019/20 (75%) Business Rates Pilot, which will be used to provide additional funds for the capital programme.

43. The provisional outturn position of the 2020/21 Leicester and Leicestershire Business Rates Pool shows a total retention of £9.5m. The final position was expected to be reported in December 2021, after the completion of the external audits; however, the audit process has been prolonged at some of the Districts and final figures may not be known until April. Monitoring of the 2021/22 Pool is being undertaken, with the second exercise for quarter two showing a projected retention of around £10.5m.

Council Tax

44. The 2021/22 revenue budget included a provision of £9m for the potential impact of Covid-19 on levels of council tax (and business rates) funding. The position has improved compared to the original forecasts, but it is not possible to accurately assess the levels of reductions in the funding streams, particularly as Government funding for furlough only ended on 30 September 2021 and similarly some sectors will receive business rates relief until 31 March 2022. The full impacts of unemployment and business closures are likely to be seen over the remaining months of this financial year and in 2022/23.

However, £5m of the provision has been released at this stage as it looks unlikely that the full provision will be required for this purpose.

Overall Revenue Summary

45. Overall, a net underspend of £3.5m is forecast. At this stage potential uses of the underspend include:
    - investment in transformation activity to support delivery of MTFS savings;
    - reducing the capital shortfall in the 2022-26 proposed MTFS, £143m borrowing included.
    - Supplementing the inflation contingency

CAPITAL PROGRAMME

46. The updated capital programme for 2021/22 totals £118.5m. This follows a review of the programme undertaken in July 2021 and approved by the Cabinet in September 2021.

47. The latest forecast on the capital programme for 2021/22 shows an overall net variance of £22.2m. A summary is shown in Appendix C with details of the major variances provided in Appendix D. The main variances are reported below:

Children and Family Services

48. Overall net variance of £7.0m:

    - Provision of Additional School Places - £4.8m slippage due mainly to:

        - Rothley Phase 2 - slippage of £1.5m. Site issues leading to planning problems, with permission being repeatedly pushed back. The developer's planning application included both the new school building, plus outline permission for up to 80 additional dwellings. However, the planning application was refused, citing issues with the settlement boundary, the lack of demonstration of a housing need, and being contrary to the Local Plan amongst the various reasons for refusal. The scheme has now received planning approval in principle.
        - Ashby School Places - slippage of £1.0m. In addition to the age range change, Ivanhoe has recently joined an Academy Trust, which has brought with it changes in key stakeholders at the school.
        - Lutterworth Primary School - slippage of £0.9m. The scheme has been delayed due to higher than expected quotes being received by the school and a funding agreement being put in place.
        - Melton John Fernley School - slippage of £0.7m. There have been numerous design changes requested, which along with procurement framework issues has resulted in significant delays.
        - Castle Donington Community College - slippage of £0.6m. Issues in securing planning permission for the project has delayed the start date.

- SEND Programme - £1.4m slippage. Time spent on schemes that were ultimately deemed unfeasible has delayed progress in this area. One scheme is awaiting Regional Schools Commissioner consent - this is unlikely to be granted until the end of February.

- Assessment & Residential Multi-functional properties - £0.8m in year slippage due to the lack of suitable properties in the market post last year's stamp duty holiday and an offer that fell through as the restrictive covenants in the deeds making it unsuitable for the required purpose. The refurbishment and compliance costs of getting the properties ready have also been impacted by the current national climate of rising builder costs and materials and consequently phase 1 is now projected to cost £2.7m against a budget of £2.5m. The additional costs will be contained within the overall C&FS capital programme.

Adults & Communities

49. The department is forecasting overall net slippage of £0.1m.

- SCIP Loughborough - Ashby Court Refurbishment, £0.2m. Overspend forecasted with a budget increase requested from the SCIP Board. This could be funded from the 2022/23 SCIP allocation.
- Hamilton Court/Smith Crescent - NWL Development, £0.2m. Cabinet agreed that a short breaks facility was no longer required on this site therefore no further development is expected in 2021/22.

Environment and Transport

50. The department is forecasting net overall net slippage of £14.5m. The main variances are:

- Melton Mowbray Distributor Road, North and East Sections - £5.3m. Slippage due to contractors reducing planned work on the advanced work package to minimise the financial risk to the County Council of completing work before the full business case is agreed with DfT. Increased slippage as the forecast and programme are being aligned, also less work is expected to be completed by external contractors.
- Hinckley Hub (Hawley Road) – NPIF, £3.3m. Slippage due to delays relating to Covid-19 restrictions and then waiting to commence the works after the Christmas period to minimise traffic flow concerns. The evaluation of tenders also taking longer than anticipated resulting in a delay in signing the construction contract.
- Melton Distributor Road - Southern Section - £1.8m Slippage due to the signing of the legal agreement terms for funding from Homes England taking longer than expected. The agreement has now been signed.
- Safety Schemes - £0.8m Slippage due to impact from Covid-19 delaying schemes.
- Vehicle Replacement Programme - £0.7m slippage due to lead in time for purchase of vehicles and ongoing work for business case for green vehicles.

- Transport Asset Management – Capital Maintenance Schemes, £0.7m. Slippage of £0.4m due to design fees on major projects being less than anticipated and due to works on footways schemes due to risks built into the programme that may not be quantifiable until next financial year. Underspend of £0.3m due to over accruals from prior year.
- Recycling House Waste Sites - General Improvements - £0.6m slippage. Due to a better understanding for lead in times for procuring mobile plant and slippage of additional money provided by Highways to Environment and Waste during the pandemic.
- Advanced Design / Match Funding – slippage of £0.5m. Due to delays in procurement of services on Cycling and Walking Strategy and public consultation not commencing until next financial year, and a lack of funding availability to progress works on the Desford Crossroad project. Also delays on the design guide programme caused by more review work being required.
- Kibworth Site Redevelopment - £0.5m slippage of programme due to a more accurate estimation of the value of works that can be completed during the current year.

Chief Executives

51. The department is forecasting an overall net underspend of £0.2m due to a reduction in the financial commitment required for the Broadband Phase 3 contract.

Corporate Resources

52. The department is forecasting overall to be on budget. The main variances within this position are:

- Workplace Strategy - end user device (PC, laptop) - £0.7m. Acceleration due to a revised business case and a more ambitious plan in the wake of Covid-19. Overspend of £0.1m relating to 50 high powered laptops which had been expected to form part of a programme in the future, however, these are required earlier than anticipated.
- Climate Change - public sector decarbonisation scheme, £0.2m. Overspend due to compensation event for the thermal store for County Hall.
- Ways of Working – property - £0.2m. Acceleration due to revision of business case and a more ambitious plan in the wake of Covid 19.
- Climate Change - score + (schools energy efficiency scheme) - £0.6m slippage due to consideration of the type of leases used and also whether it is still viable for the County Council to undertake the works in light of the greater potential for grant funding. This is under review.
- County Hall Lift Replacement Scheme - £0.2m. Slippage due to a review of procurement routes no suitable option has been identified and so to ensure appropriate use of funds the project will commence next financial year once a new framework is in place. This is the most suitable option to ensure due diligence by both procurement and Legal ensuring contracts will be evaluated for compliance.

- Climate Change - Electric Vehicle Car Charge Points - £0.2m. Slippage due to a lack of staffing resource delaying the ongoing works with E & T Department.

Corporate Programme

53. An overall net variance of £0.4m is forecast. The main areas relate to:

    - Industrial Properties Estate - General Improvements, £0.2m slippage as projects not come forward due to lower than expected lease turnover, resulting in fewer refurbishment/upgrade projects.
    - CAIF – M69 Junction 2 Strategic Development, £0.1m slippage as a result of workstreams relating to the project slowing down and delays associated with the emerging local plan.

54. The Corporate Programme includes the repayment of £0.5m Homes England Local Authority Accelerated Construction grant received in 2020/21. This was an initial payment of a total grant available of £8.1m to contribute to building new Homes in the Lutterworth area. Planning delays have meant that the County Council is unable to meet the grant deadlines of 31st March 2022. Acceptance of the grant would have also placed restrictions on the title of the land and include future grant repayment liabilities. By withdrawing from the agreement, the first phases of the development will now be free of these onerous conditions. Based on latest estimates the potential market value of the land would increase by an equivalent amount, c£8m.

Capital Receipts

55. The requirement for capital receipts for 2021/22 is £2.8m. The latest forecast of receipts is in line with the requirement.

Recommendation

56. The Scrutiny Commission is asked to note the contents of this report.

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix A: Revenue Position as at Period 10, 2021/22
Appendix B: Revenue budget major variances
Appendix C: Capital Programme Monitoring Statement
Appendix D: Capital Programme – Forecast Main Variances and Changes in Funding

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